

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities.

Investigation 07-01-022
(Filed January 11, 2007)

In the Matter of the Application of Golden State Water Company (U 133 E) for Authority to Implement Changes in Ratesetting Mechanisms and Reallocation of Rates.

Application 06-09-006
(Filed September 6, 2006)

Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates

Application 06-10-026
(Filed October 23, 2006)

Application of Park Water Company (U 314 W) for Authority to Implement a Water Revenue Adjustment Mechanism, Increasing Block Rate Design and a Conservation Memorandum Account.

Application 06-11-009
(Filed November 20, 2006)

Application of Suburban Water Systems (U 339 W) for Authorization to Implement a Low Income Assistance Program, an Increasing Block Rate Design, and a Water Revenue Adjustment Mechanism.

Application 06-11-010
(Filed November 22, 2006)

**THE CONSUMER FEDERATION OF CALIFORNIA'S
COMMENTS ON SETTLEMENT AGREEMENTS
BETWEEN DRA AND SUBURBAN WATER SYSTEMS**

Conservation rates are just part of an overall effort by the state of California to more efficiently use natural resources. The settlements proposed by DRA and water utilities must be viewed in this context.

The Commission developed the Water Action Plan (W.A.P.) to map out a strategy for encouraging water conservation. The proposed DRA/Suburban “Settlement on WRAM & Conservation Rate Design Issues” moves toward achievement of objectives established by the Commission, but not far enough. The two tier block rate proposed in the settlement is very conservative, and made even more tentative by the proposal that it be implemented on a trial basis. Little justification has been provided for allowing the collection of lost revenues through a Water Rate Adjustment Mechanism (WRAM), and the mechanism proposed takes into account some, but not all of the factors, which will affect Suburban’s revenues.

The proposed Settlement places the entire burden of conservation on customers, who must change their usage patterns or pay more for water. At the very least, Suburban should be required to demonstrate efforts to reduce costs, before being awarded lost revenues. The W.A.P. identifies actions which utilities might take to reduce their own water and energy usage and more efficiently plan for future use. The WRAM placed in effect for Suburban should include not only a forecast of lost revenues, but also a forecast of savings to be achieved through conservation.

These Comments propose changes to the Settlements which may improve conservation efforts by Suburban.

THE WATER ACTION PLAN

Relevant “Objectives” established in the W.A.P., and rate-related means for achieving them, which were identified by the Commission, are set forth below:

OBJECTIVE: STRENGTHEN WATER CONSERVATION PROGRAMS TO A LEVEL COMPARABLE TO THOSE OF ENERGY UTILITIES.

1. Promote metered water service to encourage conservation.

Metering water is essential to send a clear price signal and give the customer a financial incentive to conserve. ...

4. Encourage increasing conservation and efficiency rate designs (such as increasing block rates) where feasible to promote greater conservation. ...

Various rate designs can help promote efficient use of water. Increasing block rates, in which rates increase with usage, provide a financial incentive for customers to reduce water consumption. Before instituting increasing block rates, however, the Commission will carefully consider the impact on low income customers and may develop specific low income water rates, similar to its approach for low income energy ratepayers.

5. Remove current financial disincentives to water conservation. ... The commission will consider de-coupling water utility sales from earnings in order to eliminate current disincentives associated with conservation.

6. Establish utility financial incentives for greater conservation.

7. Consider energy usage as an important outcome of all water policy decisions and work toward a 10% reduction in energy consumption by the utility over the next three years.

California water and wastewater utilities ... consume substantial amounts of electricity ... There are many supply-side and demand-side policies and technologies which can help reduce this substantial energy consumption. The CPUC will identify and assess options for energy efficiency strategies for water utilities to reduce energy use associated with water pumping, purification systems, and other water processes such as desalinization.

OBJECTIVE: PROMOTE WATER INFRASTRUCTURE INVESTMENT

- 1. Allow utilities' CPUC-filed "Water Management Program" to serve as a basis for approval of needed infrastructure.**

By addressing water supply availability in each General Rate Case the CPUC assures that adequate water is available in the near term. Included within the Water Management Program should be a long-term procurement plan, including appropriate water conservation and efficiency estimates to enable more efficient planning for future investment needs. ... Useful information could be obtained by reviewing the lessons learned by the Metropolitan Water District and other large publicly-owned water providers in utilizing groundwater storage and recycled municipal water, and other water management practices.

OBJECTIVE: ASSIST LOW INCOME RATEPAYERS.

- 1. Develop a low-income rate assistance program for water customers taking service from CPUC-regulated water utilities.**
- 2. Implement a pooling mechanism as well as a standard low-income rate assistance program based on the results of individual company programs. ...**

In a pooling program revenues are collected from all regulated water utilities to support their respective low-income rate assistance programs. The pooling program would allow each company to make a claim for the costs it incurred in the operation of its low-income program. .. The CPUC will also evaluate the possibility of authorizing bill payment programs for assisting low income ratepayers, including an averaging of payments over a specified time period.

- 3. Examine policy and legislative changes needed to address low-income consumers dwelling in multi-family housing.**

OBJECTIVE: SET RATES THAT BALANCE INVESTMENT, CONSERVATION, AND AFFORDABILITY.

- 1. Review utility rate case revenue requirements from the perspective of long-term investment and conservation, as well as shorter-term rate impacts.**

Currently, the Commission focuses more on short-term rate impacts and far less on the longer term benefits of infrastructure investment and water conservation. The commission will seek a more balanced approach that takes into account investment and conservation benefits,

as well as rate impacts. .. This critical review will ensure that the revenue requirements being requested are both justifiable and adequate in terms of long-term cost minimization efforts, investment in conservation, and new water supplies required to meet consumers' needs.

RATE DESIGN PROPOSAL

The Division of Ratepayer Advocates (DRA) has been extremely helpful throughout the settlement process and has explained many of the objectives it hopes to achieve through settlement. The DRA has identified important principles to be followed in designing rates, and the Settlement moves in the right direction, but only partially.

- The Settlement makes no change in the service charge authorized in D.06-08-017. (Settlement on WRAM and Rate Design at ¶ 4.2).
- The Settlement designs the first rate tier (Block I) to include “average monthly (annual) consumption and average summer consumption.” (Settlement on WRAM and Rate Design at ¶ 4.3).
- The Settlement proposes one additional tier “for all usage beyond the top of Block I.” (Settlement on WRAM and Rate Design at ¶ 4.3).
- The Settlement fixes the break points for the blocks based on meter size “to minimize the impact on large households.” (Settlement on WRAM and Rate Design at ¶ 4.3 & 4.4).
- DRA and Suburban propose to implement the two block rate design on a trial basis, with the “trial program to become effective 90 days after a decision adopting the proposed settlement,” and continuing until the close of Suburban’s next general rate case. (Settlement on WRAM and Rate Design at ¶ 3).

The following Comments are offered concerning the Proposed Rate Design

Service Charge.

The parties provide two reasons for leaving the service charge “as is”: “concerns about the impact of changes ... on communities with a large number of residents per household;” “concerns regarding Suburban’s cash flow.” Concerns about multiple occupancy dwellings were also expressed in connection with the development of the break-point between blocks. Rather than designing rates “around” these customers, their special situation should be addressed separately, by identifying them and designing conservation rates for them. Then conservation rates for the remaining residential customers could be designed to more closely comport with principles of the California Urban Water Conservation Council (CUWCC).

Suburban’s service charge does not take into account objectives to be achieved through conservation rates. D.06-08-017 at 8. A new service charge should be developed, rather than leaving the existing charge unchanged, as proposed by the DRA/Suburban Settlement.

According to BMP 11 of the California Urban Water Conservation Council (CUWCC), the service charge should be designed to recover costs unrelated to the volume of water delivered or new service connections. CUWCC sets a target of at least 70 percent of revenues collected through the volumetric charge, as referenced in the DRA/Suburban Motion for approval of the settlements (page 14), but that calculation represents the ratio between the revenue from volumetric rates and the

revenue from volumetric rates plus the meter charge, with all other revenues excluded (e.g., revenue from new service connection charges, from fire protection rates, grants, etc.). It is not clear whether the ratio of meter charge and revenues excludes ‘other revenues,’ as required by the CUWCC.

Block I.

The DRA/Suburban Settlement uses average customer usage as the measure of usage to be included in the first block of the two-block rate.¹ Use of the average assumes that average usage cannot be reduced. This is not necessarily true. Suburban should consider offering a discount rate, below the first tier, to recognize the decreased costs to the system of a residential customer who uses less water than the average customer.

Block II.

The DRA/Suburban Settlement explains that only one additional tier has been created because there is no significant difference between summer and winter usage and because the Commission “did not provide for seasonal rates.” The explanation does not address the question of whether a third block is necessary to send a signal to some customers that their usage is “excessive.” There is some indication in the filing that a third block is needed:

“at peak production levels, which often occur in summer months, the marginal costs of the most expensive purchased water sources often exceed the authorized quantity rates under the current uniform rate structure. In other words, Suburban often actually loses money on

¹ Settlement at ¶ 4.3. It is not clear why they selected the mid-point between average monthly consumption and average summer consumption, rather than average annual consumption, or the midpoint between average winter consumption and average summer consumption. The parties state the difference between summer and winter usage is not significant; use of a midpoint between average annual and average summer usage is even less significant.

marginal sales during peak periods when relying on high cost purchased water sources.

(Motion to Approve Settlement Agreements at 13). Electric rates have been designed to provide customers with signals about the cost of peak usage. A similar price signal to water users might help Suburban avoid purchases of high cost water during peak periods.

Large Households.

The DRA/Suburban Settlement does not address the issue of how to provide conservation signals to multiple unit buildings with a single meter. The existence of master-metering discourages conservation. The resident of one apartment who makes an effort to conserve water, sees no reward on his or her bill. Instead, the cost of water to the building is spread equally among the tenants, and the conservation-oriented tenant's savings might be wiped out by another apartment dweller's excessive use. More attention must be paid to this issue.

Trial Basis

There is no reason to implement the two-block rate structure on a trial basis. The two-block rate structure has already been tried and found effective. "Approximately half the California water ratepayers in 2003 had increasing block rates." (W.A.P. at 8). However, it would make sense to implement conservation rates on a trial basis if additional changes were proposed, *e.g.*,

- Moving costs from the service charge to the volumetric rate to create greater incentives to conserve.
- Establishing a discount rate for customers with less than average water usage

- Creating additional tier(s) to encourage customers with greater than average water usage to conserve.

It would also make sense to begin gathering data about the effect of some experimental changes in rate design, prior to the commencement of the next rate case. It is not clear why the parties propose a 90-day delay in implementation of the conservation rates, other than to avoid the summer season when collections are at their greatest. Valuable information could be gained during this period.

Suburban should use the time between now and its next rate case to gather additional data to be used in adjusting or creating new conservation rates, *e.g.*,

- The patterns of use of some of residential customers using large volumes of water
- The patterns of use of some commercial and industrial customers who might be introduced to conservation rates like those used in the Irvine Ranch Water District. Each customer's historical water usage is used as a base, and the monthly water bill is calculated by comparing actual usage to the base index, with a discount given for decreased use, and a higher rate for increased use. "Penalties" may be offset by the correction of a problem, like leaky pipes.
- Determining which buildings with large meters are multi-unit residential buildings and which of those house low-income tenants.
- Installation of meters on some multiple occupancy dwellings to determine the effect on usage of individually metered apartments

WRAM

Given the fact that Suburban may easily reduce costs if demand decreases, by simply reducing the amount of water purchased, the Water Revenue Adjustment Mechanism (WRAM) proposed in the Settlement may be unnecessary. If a WRAM is deemed necessary, care must be taken to ensure that the recovery of revenues attributed to lost sales is not excessive.

During discussions with DRA and other water companies participating in settlement negotiations, it was understood that the WRAM would be designed to compensate Suburban only for revenue losses attributable to implementation of the increased rates in the second rate block. This makes sense, given the fact that no change in the service charge is proposed, and average usage may increase because the “Block I rate is a decrease from the authorized single quantity rate.” (Motion for Approval of Settlements at 8).² If the WRAM is approved, it should be limited to the differences in collections in the second block.³

Similarly, discussions between DRA and the water companies indicated the WRAM would reflect not only reductions in revenues associated with decreased sales, but also reductions in costs associated with decreased sales. This is particularly significant for Suburban who can save money, in avoided water purchases, if customers reduce usage.

In addition, Suburban should be required to develop and file contingency plans for the least-cost method of securing a supply of purchased water if sales decline, and should be required to justify any deviation from those plans. The Commission

² No explanation has been given for this reduction in the first Tier.

³ The Settlement states that the true-up compares “actual monthly consumption at the increased block rates” with what would have been collected using single quantity rates.

intended water utilities to develop procurement plans and conserve energy.

Suburban should actively pursue conservation objectives, along with its customers.

Other factors which should be considered before the WRAM is approved include the following:

- It will not be easy to determine whether a reduction in demand for water is attributable to the increased rate charged for water or some other cause, e.g., vacationing residents, children at summer camp, an inoperative swimming pool, an unusually cool weather pattern, etc. Surveying of a random sample of customers should be undertaken to determine what caused reduced usage.
- Offsetting growth (e.g., a new subdivision opening) may reduce revenue loss and should be considered when administering the WRAM.
- Suburban's reduced risk of lost revenues should be recognized when its overall cost of equity is calculated.

Any surcharge imposed for the collection of lost revenues must also take into account a number of factors:

- Perverse price signals will be given if customers who have succeeded in reducing their demand for water are penalized for their efforts, by the imposition of a surcharge.
- The surcharge will offset some or all of the credit given to low income customers, unless assigned to wealthier customers. The amount of credit given to low income customers, or the amount of the surcharge imposed on other customers, should be calibrated to reflect the increased cost created by compensating the utility for perceived lost sales.

If the WRAM is approved, despite these difficulties, the Commission must carefully review the calculations of lost revenues to make sure the loss to be collected through a surcharge is the result of conservation rates.

LOW-INCOME PROGRAM

The Commission recognized in the W.A.P. that there is a “wide variability in the average percentage of Class A water utility ratepayers that are at or below the federal poverty level as well as those at 174% of the federal poverty level. ... This wide variability supports the need for a Low income Assistance program at a state level, as any utility-specific program could be extremely burdensome on the remaining ratepayers that do not qualify for low-income assistance” (W.A.P. at 17). Approximately eleven percent (11.1%) of Suburban Water’s customers fall below 99 percent of the poverty level, and twenty-four (24.4%) percent fall below 174% of the poverty level. (W.A.P. at 17).

The DRA/Suburban Settlement will allow eligible low-income customers to receive a flat monthly credit of \$6.50, and give a \$20.00 credit to non-profit group living facilities, agricultural employee housing facilities, and migrant farm worker housing centers. (Settlement Agreement on Low Income Ratepayer Assistance (L.I.R.A.) Program Issues at ¶¶ 3.1 & 3.2). The resulting cost to remaining ratepayers is estimated to be \$56,862, or a surcharge of 3.1¢/ccf/mo. For an average use of 20 ccf/mo, this amounts to an additional 60¢/mo, more than offsetting the reduction to a customer with average usage, which would otherwise result from the changed rate design. (L.I.R.A. Settlement at ¶ 5; Rate Design Settlement at 7).

It is not clear that the figures provided by DRA and Suburban accurately reflect the cost of providing low-income credits. Additional data are needed to determine the number of low-income residential customers, their likely usage under conservation rates, and the cost to other customers of providing the credit. The need for a pooling arrangement, like the Universal Service Telephone Lifeline fund may then be realistically examined.

CONCLUSION

The Consumer Federation of California recommends that any trial of conservation rates include more innovative proposals and be designed to gather data which will ensure conservation rates are reasonable. Data is also needed to determine what low-income credit should be awarded and whether a pooling arrangement is necessary to fund the low-income program.

Dated: May 23, 2007

Respectfully submitted,

CONSUMER FEDERATION OF CALIFORNIA

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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities. Applications of Golden State Water Company, California Water Service Company, Park Water Company, and Suburban Water Systems

Investigation 07-01-022
Application 06-09-006
Application 06-10-026
Application 06-11-009
Application 06-11-010

CERTIFICATE OF SERVICE

I hereby certify that on March 16, 2007, I served by e-mail all parties on the service lists for I.07-01-022, A.06-09-006 A.06-10-026, A.06-11-009 & A.06-11-010, for which an email address was known, true copies of the original of the following document which is attached hereto:

**THE CONSUMER FEDERATION OF CALIFORNIA'S
COMMENTS ON SETTLEMENT AGREEMENTS
BETWEEN DRA AND SUBURBAN WATER SYSTEMS**

The names and e-mail addresses of parties served are shown on an attachment.

The aforementioned document was served on Michael Whitehead, San Gabriel Valley Water Company, PO BOX 6010, El Monte, CA 91734, by causing the Notice, enclosed in an envelope addressed to him and with postage prepaid, to be deposited in the U.S. Mail.

Dated: May 23, 2007

Respectfully submitted,

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